

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation into Unbundling of

Metering, Billing and Information Services DTE 00-41

REPLY COMMENTS OF UTILITY WORKERS UNION OF AMERICA, AFL-CIO(1)

## INTRODUCTION

The Department of Telecommunications and Energy ("Department") has launched this investigation to carry out the mandate of the legislature contained in Section 312 of Chapter 164 of the Acts of 1997 ("Section 312"). That legislation requires the Department, inter alia, to focus on the costs of providing metering, billing and information services ("MBIS"); the potential savings that would accrue to consumers if MBIS were opened to competition; and the potential disruption to employee staffing levels if MBIS competition is allowed. (2) The comments submitted in the initial round make three points clear. First, competition will have an adverse impact on employees. No party questions this fact. Second, all of the available evidence demonstrates that opening MBIS will initially increase the costs consumers will pay for MBIS services. Distribution companies will see relatively small decremental savings from MBIS competition, as they will need to maintain staff and support for carrying out MBIS-related functions, and will incur incremental costs in establishing systems that would allow for MBIS competition. Third, the alleged benefits of MBIS competition, benefits that might offset the increased costs distribution companies have identified, are based on economic theory but are not yet supported by experience or analysis.

The Utility Workers Union of America and its Massachusetts locals continue to urge the Department not to open up MBIS to competition. Allowing full-scale MBIS competition would effectively separate customers from the companies that will still continue to provide them with distribution services. Customers expect that they can contact their local company with questions about billed amounts, meter readings, service terminations, and other issues. They also expect their distribution companies to maintain adequate staffing levels to respond quickly to emergencies. Distribution companies are required to provide reliable, high-quality service as a condition of their continuing monopoly franchises. MBIS competition would place these expectations at great risk, as other companies could be rendering bills and reading meters. If MBIS competition was essential for implementing competition in generation services or for lowering costs to consumers, then the costs and risks involved might be justified. But within the parameters established by the legislature for evaluating MBIS competition, there is no basis for doing so.

## DISCUSSION

MBIS Competition Will Disrupt Employee Levels and Reduce Service Quality

## Untitled

Section 312 requires the Department to consider whether any anticipated savings from MBIS competition "can be effected with little, if no, disruptions to employee staffing levels of those distribution companies conducting those activities." As UWUA noted in its Comments (at 10), opening MBIS to competition will lead to current workers losing well-paying jobs. The comments filed by others clearly and consistently reinforce this conclusion.

NSTAR, for example, notes (Comments, at 21) that "although the avoided costs associated with unbundling MBIS are relatively small, the reductions are largely related to reduced employment levels." If MBIS competition succeeds at any meaningful level, distribution companies will have to reduce their staffs significantly. At NSTAR, 528 people hold various MBIS-related positions. NSTAR Comments, Att. C. Just over 60% of those employees are female, i.e., including many single heads of households, as UWUA noted in its initial comments. At Massachusetts Electric Company ("MECo"), just under 600 people hold MBIS-related jobs. Loss of any of these jobs would be highly disruptive to the affected employees. No one who submitted comments questions that MBIS competition will disrupt the workforces of the regulated distribution companies. (3)

Staff reductions affect not only the employees who depend on the distribution company for their livelihood, but consumers as well. The Department should therefore proceed with great caution before allowing MBIS competition. As UWUA noted in its Comments (at 10), any further staffing reductions will limit the ability of distribution companies to meet their customers' needs. Other commenters make the same point. NSTAR, for example, predicts that "unbundling MBIS would cause significant, long-term deterioration in the quality of service and the level of customer comfort and satisfaction." Comments, at 20. Staff reductions will have a dramatic impact during outages because companies currently enjoy flexibility in reassigning MBIS workers away from more routine duties to outage restoration efforts. NSTAR Comments, at 21; see also Western Massachusetts Electric Company ("WMECo") Comments, Exec. Summ., at 2 (the current structure promotes better system maintenance, operations and planning, and enhances the ability to locate faults and dispatch service crews). None of the proponents of MBIS competition questions these crucial facts.

### MBIS Competition Will Increase the Cost of Delivery Service

In its Comments (at 13), UWUA noted that MBIS competition will "likely increase costs for customers" and result in the "distribution company and the competitive company incurring overlapping or duplicate costs," but reserved further comments until it could review the comments of the utilities, which support UWUA's conclusion. As WMECo notes (Comments, at 3), relying on a study by the Pacific Economics Group ("Pacific Group"), a distribution company will incur a range of new costs in order to implement competitive MBIS, including upgrading information systems, redesigning business procedures, and developing new billing systems. MECo estimates that its implementation costs would reach \$12 million. Comments, at 16-17. Pacific Group estimates that California distribution companies have already incurred \$37.6 million in fixed costs from implementing MBIS and will incur recurring costs as well. The Pacific Group study emphasizes that "the costs of third party MBI [in California] are real and growing." NSTAR Comments, Att. D, at 3 (emphasis in original).

The group of commenters comprised of the Division of Energy Resources, Attorney General, Associated Industries of Massachusetts and The Energy Consortium ("DOER") believes that "there should be only modest costs associated with the introduction of competition." DOER Comments, at 11. DOER, however, does not estimate the magnitude of these costs. DOER also acknowledges that distribution companies "will incur

#### Untitled

one-time costs to modify their existing systems" and lose some of the current economies of scale they now enjoy. Comments, at 12. In fact, Pacific Group estimated fairly significant losses of scale economies from MBIS competition. NSTAR Comments, Att. A, at 2-3.

Competitive energy suppliers, who are the companies that have thus far expressed the greatest interest in competitive MBIS, logically focus their marketing efforts on larger, commercial customers and, within the residential class, on those customers with credit cards and access to the Internet. (4) Cream-skimming will result. The remaining customers will be disproportionately smaller-volume customers, customers who pay by check or in person at

pay-stations, and customers who call disproportionately upon customer service representatives for assistance. Fixed customer costs will be spread over a smaller base of customers who generate relatively small revenues per customer, and the charges for distribution service will inevitably increase.

Distribution companies will lose revenues as customers migrate to competitive MBIS providers, (5) but the decremental savings will be small. (6) Distribution companies will still need to maintain substantial investments in MBIS, including customer service staff, the capability to provide metering for customers who do not migrate to competitive MBIS providers, billing departments, and a range of other services. The local companies will also have to provide "default" MBIS services when customers switch from a competitive generation supplier who offers MBIS back to a distribution company's default service rate, or over to a competitive generation supplier who does not offer MBIS. As competition increases and customers more frequently migrate from one supplier to another, this obligation will become substantial and cause needless duplication of resources. (7) The per-customer cost of distribution service will increase.

#### The Benefits of MBIS Competition Are Speculative at Best

Many commenters predict a range of benefits from MBIS competition: installation of newer, more sophisticated meters; more efficient use of energy and better control over expensive peak loads; more timely and detailed information for customers. The pro-competition commenters assume that the benefits will far outweigh any costs.

Several commenters note, however, that distribution companies or customers themselves can install more sophisticated meters or information relay devices and that MBIS competition is therefore not the only or even the best means to the desired goal of enhanced metering. MECo Comments, at 4, 13 (describing the July 5, 2000 settlement with various parties regarding enhanced metering services); WMECo Comments, at 6-7 (describing a broad range of metering and reporting services offered). Schlumberger, a major provider of network meter reading and wireless data telemetry services, strongly promotes the benefits of advanced metering, but remains pointedly "neutral as to whether metering should be made competitive" precisely because utilities themselves could best "deploy advanced metering." In fact, the prospect that MBIS will become competitive has slowed down the major capital investments utilities would have to make to widely deploy advanced metering.

As the Pacific Group study highlights, there are "[n]o substantiated estimates of benefits from third party MBI." NSTAR Comments, Att. D, at 3. The commenters who most forcefully urge the Department to open up MBIS to competition implicitly acknowledge that the benefits are speculative, discussing what the "potential benefits will likely include" and hoping that "[c]ompetitive providers of billing and information services may be able to realize greater scale economies." DOER Comments, at 5, 7. No commenter offers any documentation of actual benefits realized.

Other commenters are more cautious about the benefits of MBIS competition. Si the concludes "that there is insufficient evidence to determine whether full MBIS

Untitled

competition is now in the public interest." Comments, at 2. Si the also notes that in California, the first state to open up MBIS to competition, few meters have been installed by competitive suppliers. Comments, p. 17. The interest in these meters is still very limited. Given the small number of interested customers, their needs for enhanced metering services could easily be met by the type of settlement MCo recently reached and by the type of enhanced metering services Western Massachusetts Electric offers. The benefits of enhanced metering can be obtained without incurring all of the costs of open competition.

CONCLUSION

The Restructuring Act (St. 1997, c. 164, §312) requires the Department to consider opening MBIS to competition. In doing so, the Department must consider the costs of providing MBIS; whether any "substantive savings accrue to consumers" from competitive MBIS; and the extent to which competitive MBIS will disrupt employee staffing levels.

Based on the comments received, the Department must conclude that employee staffing levels will be disrupted. UWUA, the distribution companies and other commenters all agree that employee staffing levels will decline as MBIS competition grows, and no party questions this conclusion.

The comments also demonstrate that MBIS competition will increase the costs of distribution companies, based on the inherent nature of utility-provided versus competitively-provided MBIS and the experience to date in California. No party contradicts this evidence, although those who support MBIS competition either ignore or minimize the costs of competition.

The asserted benefits of MBIS competition are based solely on economic theory, which, at best, only suggests that there will be benefits, but not that the magnitude of those benefits will outweigh the costs. Experience to date, primarily in California, does not support the projection of significant benefits.

In fact, economic theory, as explained in the Pacific Group report, suggests that customers will lose the current economies of scale and scope they currently enjoy from distribution companies providing delivery services and MBIS to large numbers of customers in distinct, often densely-populated, geographic areas. The theory is well-supported by the limited experience to date with competitive MBIS.

Few customers are clamoring for MBIS competition. The Department should conclude that MBIS competition is not in the best interest of customers.

September 7, 2000 Respectfully submitted,

UTILITY WORKERS UNION OF AMERICA UWUA Locals 273, 369, 387, and 446

Brotherhood of Utility Workers Council

Charles Harak, Esq. (charak@bck.com)

BERNSTEIN, CUSHNER & KIMMELL, P.C.

585 Boylston Street, Suite 200

Boston, MA 02116

Untitled

617-236-4090 (voice)

617-236-4339 (fax)

A: \00-41Reply. wpd

1. These Comments are jointly sponsored by the national Utility Workers Union of America, AFL-CIO; UWUA Local 273 (Bay State Gas Company); UWUA Local 369 (Boston Edison Company); Local 387 (Boston Edison Company); UWUA Local 446 (Massachusetts Electric Company); and the Brotherhood of Utility Workers Council (collectively, "UWUA").
2. The legislation also requires the Department to investigate and review "the creation of exclusive distribution service territories." UWUA addressed this issue in its initial comments.
3. For example, Automated Energy, Inc., one of the commenters supportive of MBIS competition, acknowledged the "impacts on utility employees." The Division of Energy Office et al. (at 12-13) similarly recognized the impact on workers.
4. See, for example, the "Frequently Asked Questions" page for essential.com (www.essential.com) (for customers who wish paper billing, "we will be happy to send you one at the cost of \$3.95/month").
5. If the Department allows MBIS competition, it should provide some form of credit to those customers who no longer use the distribution company's MBIS services.
6. California regulators concluded that the avoided cost of reading a single meter is close to zero, especially in high-density urban areas. NSTAR Comments, Att. A, at 12.
7. See NSTAR Comments, Att. A, at 13, regarding duplication of services.